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Supreme Court, U.S.
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No. 02-129

In the Supreme Court of the United States

KUSTNER INDUSTRIES, S.A., et al.,

Petitioners,

v.

SCHREIBER FOODS, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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RULE 29.6 NOTATION

The respondent Schreiber Foods, Inc. has no parent, and there is no publicly held company that owns ten percent or more of the respondent's stock.

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RESPONDENT'S BRIEF IN OPPOSITION

The respondent Schreiber Foods, Inc. respectfully requests that this Court deny the petition for writ of certiorari, seeking review of the judgment and opinion of the Court of Appeals for the Federal Circuit in this case.

STATEMENT OF THE CASE

The petitioners ask this Court to review a one-sentence statement of law in the unpublished, non-precedential opinion of the Court of Appeals for the Federal Circuit (Pet. 14a). Fed. Cir. R. 47.6; *Symbol Techs., Inc. v. Lemelson Med.*, 277 F.3d 1361, 1367-68 (Fed. Cir. 2002). In the opinion, the Federal Circuit merely cited the established meaning of a "commercial offer for sale" that will invalidate a patent if made one year before filing a patent application. *See Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 67 (1998) (statutory "on-sale bar" of 35 U.S.C. § 102(b) requires "commercial offer for sale").

This case turned on its facts, not the Federal Circuit's statement of the law. In the proceedings below, the petitioners could not prove this "on-sale" defense because they had no clear and convincing evidence of any "offer for sale," even using the petitioners' definition of the term (Pet. 14a). Thus, the petitioners effectively ask that this Court overrule its own decision in *Pfaff* requiring a "commercial offer for sale" and adopt a new, easier to prove, and indefinite standard of "commercial activity" (Pet. 11).

In the 1980s, the respondent Schreiber Foods, Inc. ("Schreiber") developed new equipment for packaging individually wrapped cheese singles with hermetic seals. Schreiber filed a patent application on June 5, 1989 that

led to issuance of the two patents in this case. When sued for selling infringing machines, the petitioner Kustner Industries, S.A. ("Kustner") tried to prove the patents invalid under the "on-sale bar" of 35 U.S.C. § 102(b). The petitioners also made many other unsuccessful contentions, not raised in the petition, on the issues of infringement and validity of the Schreiber patents.

The "on-sale" defense required corroborated, clear and convincing evidence that the patented invention was the subject of an actual sale, or a "commercial offer for sale," in the United States, before June 5, 1988 (the "critical date"). Kustner's defense was based on an allegation that before June 5, 1988, Kustner had offered to sell a machine that would be based on a Kustner prototype then in development in Switzerland. Kustner further alleged (and Schreiber denied) that its 1988 prototype embodied the patented Schreiber invention.

Years later, in the 1990s, Kustner sold machines that infringe the Schreiber patents to the petitioner Great Lakes Companies and to others. Kustner first offered to sell the infringing machines in the United States in August 1991 (A4490-92, 9018-9103), three years after the critical date for the on-sale bar.

To prove an "offer for sale," the petitioners asserted at trial that Kustner's salesman made oral offers during two sales calls to cheese producers Land O' Lakes and Sargento Foods before June 1988 (Pet. 4). However, Kustner had insufficient evidence that either of these alleged events generated an offer to sell a machine embodying the Schreiber patents. Kustner was unable to produce more than the oral testimony of a single witness to each alleged offer. Not a single document corroborated the alleged offer for sale of these complex and expensive commercial machines. The same Kustner salesman wrote

after the critical date that Kustner was not yet ready to introduce a machine in North America (A9248-49, A4494-96). Notably, the petition does not challenge the law that such uncorroborated testimony is insufficient, as a matter of law, to establish clear and convincing evidence of the on-sale bar. *Finnigan Corp. v. ITC.*, 180 F.3d 1354, 1367-68 (Fed. Cir. 1999); *Barbed Wire Patent*, 143 U.S. 275, 284 (1892).

Kustner first relies (Pet. 4) on its own salesman's uncorroborated, conclusory testimony that an oral "offer" was made to Land O' Lakes (A4399). At trial, the person at Land O' Lakes to whom the alleged offer was made also testified, but he denied receiving any offer of a Kustner machine (A4578). Thus, there was no clear and convincing evidence of an offer for sale to Land O' Lakes.

Similarly, the only evidence of an oral "offer" to Sargento Foods (Pet. 4) came from testimony of the alleged recipient. But the witness could not testify to any discussion of price, delivery terms or machine specifications (A4510-14), and confirmed that he was not aware of any offer to sell made during a "general discussion" with Kustner's salesman (A4513). Kustner's own salesman gave no evidence of an offer to Sargento Foods. Thus, there was no clear and convincing evidence of an offer to sell to Sargento Foods.

In August 1998, a jury gave its verdict rejecting this defense (A215), having received an instruction that a "definite offer of sale" of the patented invention must be made to prove the on-sale bar (A195-96). At that time, decisions of the Court of Appeals for the Federal Circuit required a "definite" offer for sale, a standard met by contract offers that could be accepted. *UMC Electronics v. United States*, 816 F.2d 647, 656 (Fed. Cir. 1987), *cert.*

denied, 484 U.S. 1025 (1988) (written, specific contract bid to Navy was a "definite sale or offer to sell"); *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1062 (Fed. Cir. 1989) (required "definite offer" was a "lengthy written proposal" which could be "'accepted' . . . the characteristic of a definite formal offer"); *see also Seal-Flex, Inc. v. Athletic Track & Court Constr.*, 98 F.3d 1318, 1324 (Fed. Cir. 1996) ("The trier of fact must determine . . . whether the inventor was merely exploring the market, or had made an unconditional offer to sell a completed invention.").

After the verdict, this Court decided *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998), which establishes that the on-sale bar requires satisfaction of two conditions before the critical date: there must be a "commercial offer for sale"; and the invention must be "ready for patenting." *Id.* at 67. In *Pfaff*, this Court held that the on-sale bar rendered invalid the patent at issue, because the inventor's acceptance of a purchase order "makes it clear" that a commercial offer for sale was made and the invention was "ready for patenting" at that time. *Pfaff*, 525 U.S. at 68.

In the district court and on appeal, the petitioners argued that the jury instructions had omitted the "ready for patenting" standard of *Pfaff*, so they needed a new trial of their on-sale defense to have the opportunity to prove that the Kustner prototype was "ready for patenting" before the critical date (Pet. 3). Schreiber replied with several arguments, including that any error on the "ready for patenting" element was harmless, because Kustner had no clear and convincing evidence of an offer for sale. Schreiber argued that the correct definition of an "offer for sale" was an offer with contract terms that

could be accepted (Reply Brief for Schreiber Foods, Inc. in the Court of Appeals, June 18, 2001, p. 25).

In their reply brief in the Court of Appeals, the petitioners cited and discussed the just-decided case *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1046 (Fed. Cir. 2001), which supported Schreiber's argument that a contract-law definition applies to "commercial offer for sale." The petitioners argued that Kustner's evidence established an "offer for sale" under *Group One* and other precedent. The petitioners did not argue, as they do now, that *Group One* was inconsistent with *Pfaff* or any earlier decisions, that *Group One* should not be applied to the case, or, most remarkably, that the on-sale bar does not even require an offer for sale (Reply Brief for Defendants-Cross Appellants, July 19, 2001, pp. 17-26).

Deciding the on-sale issue on the facts of this case, the Court of Appeals held that the petitioners did not have sufficient evidence of any offer for sale:

> Without any evidence of a formal offer, acceptance, contract, or bill of sale, the record does not show that the Kustner KA prototype was the subject of a commercial offer. Thus, Kustner did not prove by clear and convincing evidence that the Kustner KA machine was on sale before the critical date.

(Pet. 14a). This holding was mandated by the lack of corroborated, clear and convincing proof, not the legal definition of an offer for sale. The Court of Appeals cited *Group One* without discussion, for the proposition that "a commercial offer for sale must be a formal offer under commercial contract principles with terms that can be accepted to form a contract" (Pet. 14a).

In their petition for rehearing and rehearing en banc to the Court of Appeals, which was denied, the petitioners raised for the first time their argument to this Court that the *Group One* decision provides an incorrect definition of an "offer for sale." Schreiber argued at that time that the issue had been waived during briefing of the appeal (Response of Schreiber Foods, Inc. to Combined Petition, April 10, 2002, p. 11). *See United States v. Martinez*, 96 F.3d 473, 475 (11th Cir. 1996), *cert. denied*, 519 U.S. 1133 (1997) (courts of appeal "do not consider issues or arguments raised for the first time on petition for rehearing.").

REASONS WHY THE PETITION SHOULD BE DENIED

I. THERE IS NO CONFLICT WITH THIS COURT'S DECISION IN *PFAFF*

The "on-sale bar", Section 102(b) of the Patent Act of 1952, precludes patenting an "invention" that has been "on sale" more than one year before filing a patent application. This Court has determined that the statute gives rise to two conditions that must be satisfied before the critical date. "Invention" requires a complete invention that is "ready for patenting." "On sale" requires a completed sale or a "commercial offer for sale." *Pfaff v. Wells Electronics, Inc.*, 525 U. S. 55, 67 (1998). Existence of these two conditions triggers the one-year period in which an inventor must file a patent application. The on-sale statute thus creates "a period of limitation which should be certain." *Pfaff*, 525 U.S. at 65 (quoting *Andrews v. Hovey*, 123 U.S. 267, 274 (1887)).

This Court in *Pfaff* applied the on-sale bar to facts establishing a formed, commercial contract to sell the

invention by the inventor himself. *Pfaff*, 525 U.S. at 68. The offer for sale was an accepted purchase order for the invention. *Id.* Therefore, nothing in *Pfaff* conflicts with the Federal Circuit's one-sentence statement of the law in its non-precedential opinion in this case, that an "offer for sale" is an offer that can be accepted to form a contract (Pet. 14a).

It is the petitioners who have disregarded *Pfaff*, in their effort to eradicate the requirement of an offer for sale. Their contention (Pet. 8, 11-12) that the on-sale bar can be satisfied by something less than an actual sale or offer for sale (Pet. 8, 11-12) has no support in the precedent of this Court or any other court. *Pfaff* clearly states that a "commercial offer for sale" is required:

> We conclude, therefore, that the on-sale bar applies when two conditions are satisfied before the critical date. First, the product must be the subject of a commercial offer for sale. An inventor can both understand and control the timing of the first commercial marketing of his invention. The experimental use doctrine, for example, has not generated concerns about indefiniteness, and we perceive no reason why unmanageable uncertainty should attend a rule that measures the application of the on-sale bar of §102(b) against the date when an invention that is ready for patenting is first marketed commercially. In this case the acceptance of the purchase order prior to April 8, 1981, makes it clear that such an offer had been made, and there is no question that the sale was commercial rather than experimental in character.

Pfaff, 525 U.S. at 67. This is not mere dicta, as the petitioners suggest (Pet. 9), but was the basis for this Court's holding that the patent at issue is invalid.

In *Pfaff*, the Court of Appeals for the Federal Circuit had concluded that an "invention" need only be "substantially complete." *Pfaff*, 525 U.S. at 60. Also, at that time, the Federal Circuit typically applied a "totality of the circumstances" test when applying the on-sale bar, in which no one factor was deemed decisive. *Pfaff*, 525 U.S. at 66 n.11; *Pfaff v. Wells Elecs., Inc.*, 124 F.3d 1429, 1433 (Fed. Cir. 1997). This Court rejected these vague and indefinite standards, which conflicted with the statutory language and legislative purpose to provide inventors with a certain standard fixing the time when a patent application must be filed. *Pfaff*, 525 U.S. at 65-66.

The petitioners ask this Court to resurrect the same sort of vague test rejected in *Pfaff*, and in doing so they rely almost exclusively on a Federal Circuit decision applying the rejected "totality of the circumstances" test. *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1059 (Fed. Cir. 1989) (stating that the on-sale bar "does not lend itself to formulation into a set of precise requirements"). *See Pfaff*, 525 U.S. at 66 n.11 (crediting Federal Circuit's own recognition that this "test is unnecessarily vague"). *Pfaff* provides no support for the nebulous "commercial activity" standard urged by the petitioners, based on dicta from the *RCA* decision that the Federal Circuit has correctly refused to adopt as precedent (see Section II below).

II. THE FEDERAL CIRCUIT CITED AN ESTABLISHED PROPOSITION THAT RAISES NO IMPORTANT QUESTION OF LAW

The petitioners make the unsupported claim that a "uniform body of law" existed for "more than one hundred sixty-five years" (Pet. 8), by which an informal, non-contractual offer could trigger the on-sale bar. The petitioners cite only to dicta from the Federal Circuit's pre-*Pfaff* decision in *RCA*, discussing the requirement of a "definite" offer for sale:

> The requirement of a *definite* offer excludes merely indefinite or nebulous discussion about a possible sale. While this requirement may be met by a patentee's commercial activity which does not rise to the level of a formal "offer" under contract law principles, a definite offer in the contract sense clearly meets this requirement.

RCA, 887 F.2d at 1062 (emphasis in original, internal citation omitted).

The Federal Circuit has expressly recognized that the proposition in *RCA* relied on by the petitioners is dicta. *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1046 (Fed. Cir. 2001). In *RCA*, the Federal Circuit *held* that there was a "definite offer" because there was a contract offer—a formal proposal that could have been "accepted" by the recipient government agency. *Id.*; *RCA*, 887 F.2d at 1062.

The petitioners' only other cited support for this so-called "uniform body of law" comes from three district court decisions applying the *RCA* decision (Pet. 11-12). None was affirmed on appeal, and the petitioners acknowledge that the *Linear Technology* case was reversed on the relevant point by the Federal Circuit (Pet. 11).

Contrary to Kustner's contention (Pet. 8), the Federal Circuit has never held that anything less than a contract offer constitutes an "offer for sale." Based on this unsupported premise, the petitioners assert that the Federal Circuit's decision in *Group One* marks a dramatic change in the definition of an "offer for sale" for purposes of the on-sale bar. But in *Group One*, the Federal Circuit did nothing more than clarify its own precedent by rejecting the 1989 dicta from *RCA* that is the sole basis for the petitioners' argument. *Group One*, 254 F.3d at 1046.

Specifically, in *Group One*, the Federal Circuit analyzed its own pre-*Pfaff* precedents which required a "definite" offer for sale, including the *RCA* case, and determined:

> In short, there is no binding precedent in this circuit that requires us to accept something less than an offer to contract as constituting an offer for sale as that term is construed for purposes of the on-sale bar of 35 U.S.C. §102(b).

Group One, 254 F.3d at 1047.

Unable to find a substantial question in the Court of Appeals' decision in this case, the petitioners focus their attack on *Group One*. As stated below in Section III, this case turned on a lack of evidence, not the application of *Group One*. But in any event, the Federal Circuit in *Group One* had sound reasons for closing the loophole in the offer for sale requirement that the *RCA* dicta may have created. Federal Circuit decisions had consistently required a "definite" offer to sell, and had consistently found that requirement satisfied by contract offers. The Federal Circuit further stated that a definite standard for the required "commercial offer for sale" would be

consistent with *Pfaff*. 254 F.3d at 1046-47. Given that an "offer" is a creature of contract law, reliance on the general law of contracts provides a definite and familiar standard to measure what is an offer. *Id.* at 1047.[1] The Federal Circuit acknowledged that this is a fact-bound determination, and declined to establish a rigid rule for all cases that would warrant review in this Court:

> Nor do we propose to offer rules or even binding guidance for making such determinations, which offer would be little more than *obiter dicta*.

Group One, 254 F.3d at 1048.

For these reasons, neither *Group One*, nor the apparent demise of the *RCA* dicta relied on by the petitioners, warrant review in this Court. Other, precedential decisions of the Federal Circuit since *Pfaff* have applied and developed the principle cited in the Court of Appeals' opinion in this case, that "a commercial offer for sale must be a formal offer under commercial contract principles . . . ." (Pet. 14a). *Scaltech, Inc. v. Retec/Tetra, LLC*, 269 F.3d 1321, 1328 (Fed. Cir. 2001) (applying *Group One* to require offer that can be accepted under contract law); *Linear Technology Corp. v. Micrel, Inc.*, 275 F.3d 1040, 1048, 1050 (Fed. Cir. 2001) (applying *Group One* and defining offer under commercial-contract law). There has been no resultant outcry from practitioners or

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[1] Contrary to the petitioners' contention, the Federal Circuit has not set up the UCC as an "extraneous test" (Pet. 9) for an offer for sale. Rather, the UCC is used for what it is: a recognized, general source of commercial law to "inform" the determination under general principles of contract law. *Group One*, 254 F.3d at 1047; *Linear Tech. Corp. v. Micrel, Inc.*, 275 F.3d 1040, 1048, 1050 (Fed. Cir. 2001).

commentators. The Federal Circuit has seen no need to address the issue en banc, having denied requests for rehearing en banc in *Group One*, 254 F.3d at 1041, in *Scaltech*, 269 F.3d at 1321, and in this case.

The petition presents no important, unresolved question warranting determination by this Court.

III. KUSTNER'S ON-SALE DEFENSE FAILED BECAUSE OF INSUFFICIENT EVIDENCE, NOT THE LAW APPLIED

During the appeal, the petitioners accepted the law and argued the facts. The case does not turn on the legal definition of an "offer for sale." The petitioners' defense failed because Kustner had only bare, conclusory testimony of its own commissioned salesman. Kustner could offer no corroborated, clear and convincing evidence of any activity that could be interpreted as an offer for sale (Pet. 14a: "Without any evidence of a formal offer, acceptance, contract, or bill of sale . . .").

The petitioners lacked the clear and convincing evidence that the law requires to satisfy any possible standard for an offer for sale. Even if the *RCA* dicta they rely on was applied here, the conclusory, uncorroborated testimony is still insufficient to satisfy Kustner's clear and convincing burden to prove invalidity of a patent. *Finnigan Corp. v. ITC.*, 180 F.3d 1354, 1367 (Fed. Cir. 1999); *Barbed Wire Patent*, 143 U.S. 275, 284 (1892). No supporting documents exist. The testimony presented by Kustner does not even amount to the "indefinite or nebulous discussion about a possible sale" deemed inadequate in the *RCA* dicta. *RCA*, 887 F.2d at 1062. By comparison, Kustner's evidence falls far short of the

substantive negotiations and correspondence held insufficient in *Group One*, 254 F.3d at 1044.[2]

IV. THERE IS NO CONFLICT WITH STATUTORY LANGUAGE OR POLICIES

The petitioners propose a non-standard whereby any communication promoting an upcoming product can be an offer for sale, even though there is no prospect for a sale to result. The statutory language and policies relied on by the petitioners do not support their argument.

The petitioners' reliance on the statutory language "on sale" as meaning "available for purchase" (Pet. 11) is misplaced. First, this Court has already interpreted the statute to require a "commercial offer for sale" in *Pfaff*. Second, only products that are the subject of contract-law offers would be "available for purchase" under the petitioners' definition. If a potential buyer has no potentially binding offer to accept, he cannot purchase the product without further action by the seller—a subsequent offer to sell or acceptance of an offer to buy.

The petitioners also rely on asserted policies behind the on-sale bar (Pet. 14). However, their desire for a vague standard necessarily disregards the interest, recognized in *Pfaff*, 525 U.S. at 65, in fixing a time certain for inventors to file their patent applications.

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[2] Other, independent arguments raised by Schreiber below equally compel the result reached by the Court of Appeals, and would continue to support the judgment if the petition were granted, including Schreiber's contention that the jury instructions on the on-sale bar were in all ways correct, and that the Kustner prototype allegedly offered for sale in 1988 did not embody the Schreiber invention.

The petitioners assert policies to prevent inventors from profiting for a longer time than a patent's term of exclusivity, and to require early disclosure of the inventor's knowledge (Pet. 14-15). *Cf. Pfaff*, 525 U.S. at 65 (statute protects the public's right to retain knowledge placed in the public domain and the inventor's right to control whether and when to patent invention). Neither of the petitioners' asserted policies is served by the petitioners' position.

Absent an actual sale, or conduct that can bind the offeror to make a sale, there is no risk that the inventor will profit from the invention. Something more must occur to put the invention on sale—a binding offer to sell, acceptance of an offer to buy, or a completed sale. If the so-called offeror is only promoting a product by "promotional" activity which cannot bind him to make a sale, this policy is not implicated. If potential customers show interest, the inventor must then decide whether to proceed to put the invention "on sale," by making an offer or accepting an offer to buy. *See Group One*, 254 F.3d at 1047 (communications lacking specific terms such as price and quantity suggested preliminary proposals or invitations to negotiate, rather than offers to sell). On the other hand, once a contract offer is made, the inventor voluntarily puts himself in a position where the offer creates the prospect that the patented product will be sold. In that case, the on-sale bar is triggered, as the law recognizes, and the inventor must file within one year.

In this context, the petitioners' argument that advertising (an issue not presented by this case) must always trigger the on-sale bar, irrespective of the substance or circumstances of the advertisement, makes no sense (Pet. 17-18). Any advertising that would implicate the on-sale bar would itself be an offer, or would precipitate subse-

quent offers to sell, accepted offers to purchase, or actual sales, all of which clearly trigger the bar. Other advertising may signal an intent to place something on sale in the future, "but not today." *Linear Technology*, 275 F.3d at 1050-51 (applying *Group One* analysis to advertising materials). The bar should not be triggered until the offer required by *Pfaff* is actually made, not hinted at as a future possibility.

The second asserted policy cannot be served unless the inventor has a clear understanding when the patent application must be filed to disclose the inventor's knowledge to the public. *Pfaff*, 525 U.S. at 65. An inventor can "understand and control" the timing of his own conduct that can bind him to make a sale. *Id.* at 67. The petitioners' reliance on vague notions of promotional activity to trigger the bar offers no guidance to inventors who must determine when to file a patent application. Promotional activity for upcoming products not yet "on sale" is commonplace, to generate or to gauge market interest in the product, but has never been considered sufficient to trigger the on-sale bar. *See Seal-Flex, Inc. v. Athletic Track and Court Constr.*, 98 F.3d 1318, 1324 (Fed. Cir. 1996) (distinguishing "merely exploring the market" from "an unconditional offer to sell").

V. THE QUESTION PRESENTED WAS NOT PRESERVED IN THE COURT OF APPEALS

The petitioners did not raise the question presented until they filed a petition for rehearing and rehearing en banc in the Court of Appeals. During briefing of the appeal, the petitioners acquiesced to the Court of Appeals' application of the *Group One* decision. The issue was waived in the Court of Appeals. *United States v.*

Martinez, 96 F.3d 473, 475 (11th Cir. 1996), *cert. denied*, 519 U.S. 1133 (1997) (courts of appeal "do not consider issues or arguments raised for the first time on petition for rehearing."). Therefore, this Court should not consider the question. *Adickes v. S. H. Kress and Co.*, 398 U.S. 144, 147 n. 2 (1970).

CONCLUSION

The respondent Schreiber Foods, Inc. respectfully requests that this Court deny the petition for writ of certiorari.

Respectfully submitted,

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